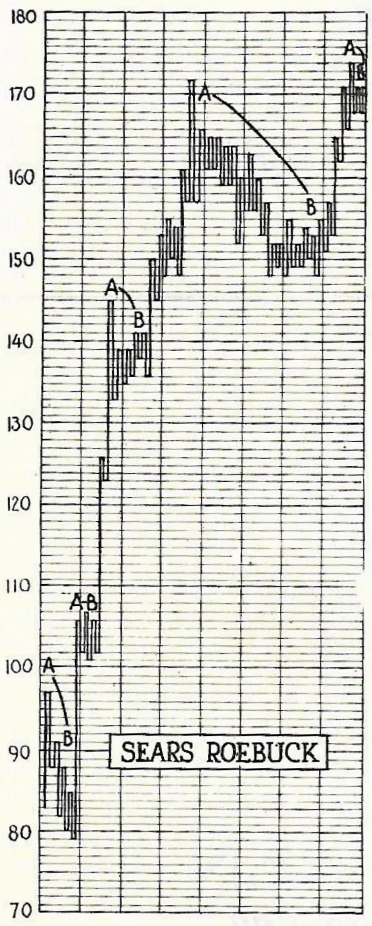
# School for Traders & Investors

*Sixty-First Lesson*

# Don't Be a Slave to Charts

## Why Mechanical Devices Can Never Replace Human Judgment—Two Illustrations

*Exhibit I*




CHARTS and graphs of price movements are valuable aids to the investor and trader who knows how to use them. They relieve memory of a considerable burden, and they present a concise history of price movements to date. Their chief value lies in their correct interpretation. They are of little service, and may be even misleading, to one who does not appreciate their significance and their limitations.

A trader who believes that he can depend on charts alone, without knowledge of the financial and industrial position of the particular corporation involved, is attempting to solve his problem with less than half of information required for a logical decision. His "batting average" is likely to be under 50%.

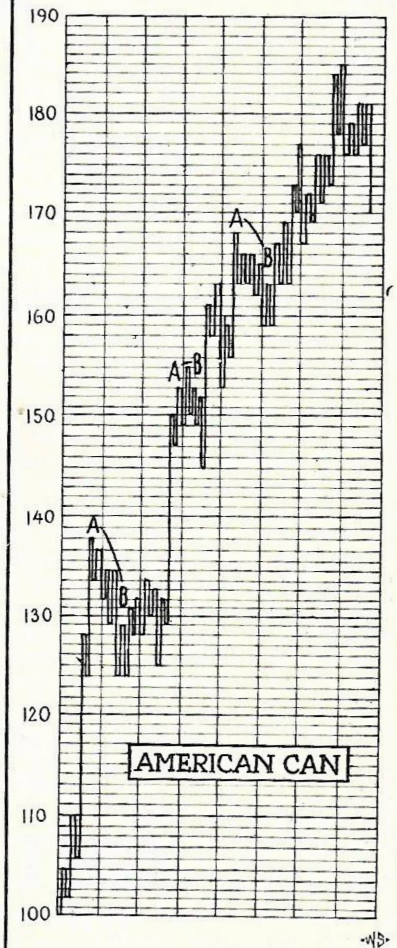
It is sometimes marvelous how a well-designed chart, of an active stock that is well-distributed and not subjected to deliberate manipulation will contain suggestions regarding future business prospects and earnings of the corporation represented. Nevertheless, there is no mechanical device that can completely replace human judgment. Any trader who tries to make his charts do his thinking, is limiting his view of the problem he is trying to solve.

*Charts vs. Brains*

We present herewith two graphs of the price movements of certain stocks, to show how easy it would be for a so-called "chart fiend" to misinterpret them. These examples are not for the purpose of illustrating "how charts go wrong," but they are offered in support of Pope's observation that "A little learning is a dangerous thing."

Too often the inexperienced trader leans too heavily on the chart that he has just learned to make. While his knowledge of this useful device is still academic, he expects it not only to integrate asset value, future earnings and mob psychology, but also to supply the experience and brains required for its logical interpretation.

*Exhibit II*




*The average chart reader develops the habit of closing out a long trade, or selling short, when his chart indicates "selling" or "distribution" following a substantial advance. This so-called selling zone is indicated on the accompanying price graphs by the heavy lines as positions "A-B". The danger of this practice is that the "chart field" leans too heavily on the assumption that his chart is telling the whole story, and that fundamental and statistical facts with regard to the stock may be ignored. Herein lies the fallacy of assuming that charts will supply brains and take the place of experience and judgment. THEY WILL NOT. The accompanying records illustrate only two of the instances where charts appear to deceive because they may not be correctly interpreted in the light of all the available facts.*